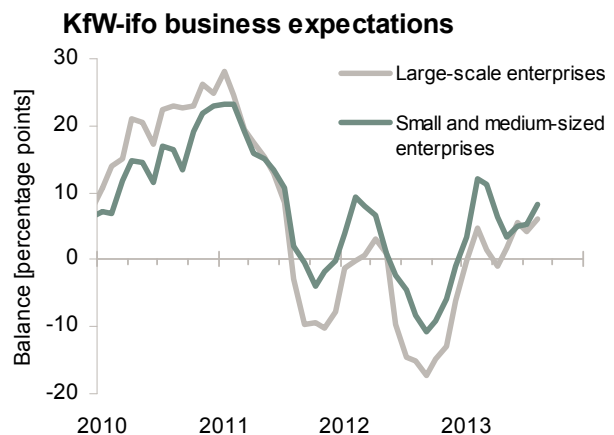
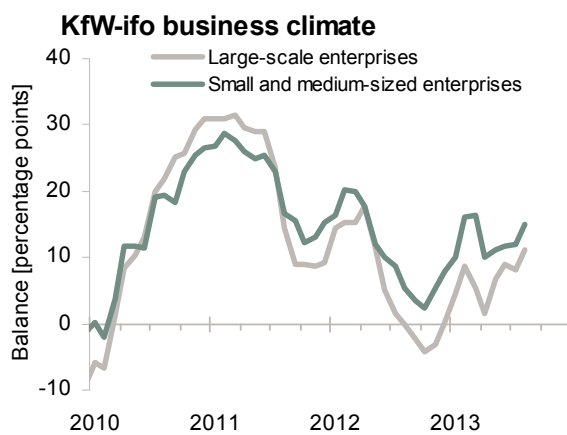


KfW-ifo SME Barometer: August 2013

Broad-based and strong improvement in business climate

- *Current situation and expectations rise*
- *Industry and wholesale pushing ahead*
- *Large companies aligning with SMEs*



Sources: KfW, ifo Institute Munich

Fourth – and this time significant – improvement in SME business climate

The German economy will continue to expand if businesses are proved right. Following the extra boost in the spring quarter thanks to a rebound effect in construction activity, we anticipate sound growth in the second half-year with quarterly rates of around 0.4 %. SMEs share this view and are also banking on a recovery. The business climate of small and medium-sized companies, the most important indicator of the KfW-ifo SME Barometer, improved in August by an above-average 3.0 points to 15.0:

- This is not just the fourth increase in a row for the business climate, the positive trend is also picking up pace as the previous three increases averaged out at just 0.7 points.
- What is particularly pleasing is that both components of the business climate are making an almost equal contribution to the improvement. While the assessment of the current situation in August rose 3.1 to 21.5 points, the business expectations for the coming six months have risen 2.9 points to 8.2.

The ongoing improvement in expectations instils confidence that companies will finally start investing again amidst better sales prospects and the falling uncertainty.

Brighter climate for large companies too

There is also good news for large businesses in August. With growth of 2.8 to 11.0 points, large enterprises are mostly keeping up with small and medium-sized businesses in terms of the improvement to their business climate. That said, the brighter sentiment with large firms is based more heavily on the current situation (+3.9 to 15.7 points compared with +1.9 to 6.0 points for expectations). In the case of large internationally oriented companies – where sentiment was consistently worse in the last two years compared to SMEs – the business climate is at its highest level since May 2012, and its expectations indicator reached a 25-month high in August. This demonstrates that companies are increasingly betting on a recovery of the main export markets – which for Germany still means Europe. Having said that they are not ignoring the global and European risks.

Climate really improving for wholesale and industry

The improvement in the business climate is broadly based and is underpinning hopes that the export industry and – with a better utilisation of capacities – corporate capital formation will increasingly be able to contribute to growth in the future too, alongside consumption and residential construction:

- The very robust improvement in business climate in the two different sizes of wholesale companies, which are positioned at the interface between the domestic and international markets, is striking (SMEs: +8.8 points to 18.1; large companies: +8.7 points to 11.8).
- The climate is also brightening up at a fast pace in manufacturing, which is strong in exports and important for the German business cycle.
- The construction climate by contrast is somewhat gloomier, yet it remains at a very high level and this trend is quite harmless after the temporary, weather-induced boost to activity in the spring.
- Climate trends in retail are divided: while the indicator for large retailers is falling, the sentiment for small and medium-sized retailers is better than in the previous month. In August the SME retail climate came in at 15.0 points, its highest level since the summer of 2012.

Economic hopes justified, but do not ignore the risks

The altogether encouraging result of the KfW-ifo SME Barometer in August confirms our economic forecast: we expect the German economy will grow by 2 % in 2014, following 0.6 % this year. Here we are banking above all on further stabilization in Europe that is just starting to pull itself out of the recession, but also on the fact that the significant reactions from the finance markets to the Fed's announced tapering of its bond purchasing programme will not

bring economic momentum in the emerging countries to a standstill. The increasingly brighter sentiment driven also by export sectors fits this overall picture. However, we may not ignore the risks: in Europe in particular the potential for a setback is still high, despite the initial rays of hope. By contrast, regardless of the current nerves on the financial markets we do not assume that the escalation in the Syrian conflict just now can dampen the economic prospects in Europe on a sustained basis.

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Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Aug/12	Mar/13	Apr/13	May/13	Jun/13	Jul/13	Aug/13			
Business climate											
Manufacturing	SME	-0.1	12.1	7.1	6.9	9.0	8.7	12.9	4.2	13.0	1.5
	LSE	-3.1	4.1	1.7	7.1	8.7	9.3	12.8	3.5	15.9	6.0
Construction	SME	18.9	34.3	28.2	24.8	25.1	24.4	21.2	-3.2	2.3	-5.5
	LSE	15.5	26.0	21.6	28.0	24.0	18.0	15.2	-2.8	-0.3	-6.1
Retail trade	SME	11.2	11.1	2.6	10.5	8.0	12.6	15.0	2.4	3.8	3.8
	LSE	-2.0	-0.3	-1.7	2.5	8.8	6.1	1.5	-4.6	3.5	5.3
Wholesale trade	SME	7.3	14.9	3.0	12.4	7.9	9.3	18.1	8.8	10.8	1.6
	LSE	7.3	9.4	-1.1	4.0	6.0	3.1	11.8	8.7	4.5	2.9
All economic sectors	SME	5.3	16.3	10.0	11.1	11.6	12.0	15.0	3.0	9.7	0.4
	LSE	-0.2	5.3	1.6	6.8	9.0	8.2	11.0	2.8	11.2	4.9
Current situation	SME	19.3	21.0	13.3	18.5	17.9	18.4	21.5	3.1	2.2	1.7
	LSE	15.3	8.5	3.7	11.3	12.0	11.8	15.7	3.9	0.4	5.3
Expectations	SME	-8.4	11.3	6.4	3.5	5.1	5.3	8.2	2.9	16.6	-0.9
	LSE	-15.1	1.6	-0.9	1.8	5.5	4.1	6.0	1.9	21.1	4.4
West Germany	SME	5.5	16.7	10.1	11.1	12.2	12.3	15.5	3.2	10.0	0.7
	LSE	-0.9	4.6	1.1	6.2	8.8	7.8	10.8	3.0	11.7	5.2
East Germany	SME	5.1	13.9	10.4	11.8	8.5	10.8	11.8	1.0	6.7	-1.6
	LSE	19.1	23.2	15.2	24.0	15.0	20.4	16.8	-3.6	-2.3	-3.4
Employment expectations	SME	6.4	7.9	6.7	5.8	6.2	7.7	7.9	0.2	1.5	0.4
	LSE	8.0	7.3	3.0	6.1	4.9	8.4	10.8	2.4	2.8	2.6
Sales price expectations	SME	-0.5	1.5	-0.9	-2.5	-2.8	-2.2	-0.9	1.3	-0.4	-1.3
	LSE	-1.5	-0.3	-4.0	-5.4	-4.1	-4.9	-3.3	1.6	-1.8	-0.8

Explanations and abbreviations:

* Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) **M**(edium-sized) **E**(nterprises)

L(arge-) **S**(cale) **E**(nterprises)

Change in percentage points **m**(onth)-**o**(ver)-**m**(onth)

Change in percentage points **y**(ear)-**o**(ver)-**y**(ear)

Change in percentage points **3 m**(onths period)-**o**(ver)-**3 m**(onths period)

Revisions relative to previous publications may occur due to seasonal and mean adjustment as well as rounding.

Differences due to rounding possible, Sources: KfW, ifo

Construction and interpretation of the KfW-ifo SME Barometer. The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the well-known ifo business climate index for which about 7,000 enterprises from trade and industry (manufacturing, construction, wholesale and retail trades) from western and eastern are polled every month on current and future business, including around 5,600 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative limits have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million) and the construction industry (up to 200 employees). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The KfW-ifo SME Barometer reports the balance of current business assessments (percentage of positive answers less percentage of negative answers), the balance of business expectations for the next six months, ascertained in a similar way, and the inferred mean average value for the business climate. Moreover, the enterprises' employment and domestic sales price expectations are also expressed as balance figures. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.